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Brazil

Retail Foods

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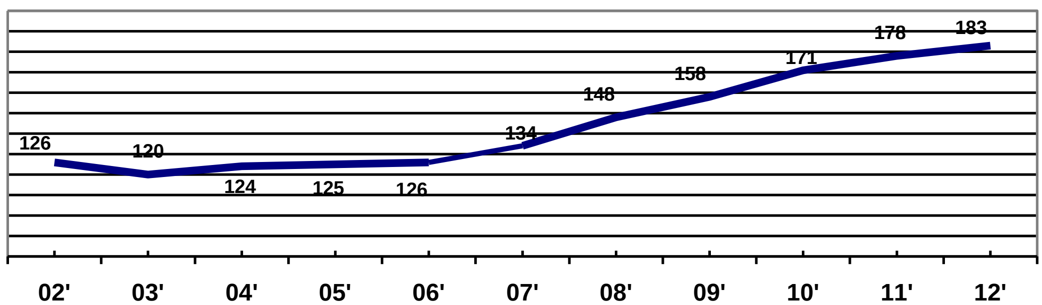
Report Highlights:

The Brazilian food retail sector is emerging among the top retail markets in the world. Domestic and global players are adopting aggressive strategies which make the business environment competitive and difficult for newcomers. Despite timid economic performance, the industry continued to grow and revenues rose 8.3 percent to $122.7 billion, in 2012.

SECTION I. Market Summary

For the ninth consecutive year, the Brazilian retail industry has grown. According to the Brazilian Supermarket Association (ABRAS), retail sales increased 8.3 percent in nominal terms and 2.3 percent in real terms, generating total revenues of R$243 billion (US$122.7 billion) in 2012. The slowdown in the global economy affected Brazil's GDP growth and continues to generate significant uncertainties in the local economy. From retailers' perspective there has been a clear drive to seek growth opportunities as the sector is mostly driven by domestic demand, which has remained reasonably healthy. In 2012 the retail sector accounted for 5.5 percent of Brazil's GDP and according to ABRAS, all indicators that help establish the industry performance were positive. The number of stores increased from 82,010 to 83,572 (1.9 percent); the number of employees also went up from 967,720 to 986,089 (1.9 percent); sales floor expanded from 20.6 million square meters to 21 million square meters (2.0 percent); and the number of check-outs increased from 206,627 to 210,245 (1.8 percent). Another indicator that tracks industry changes is the Retail Revenue index, since 1990, the base period, it captures industry changes. Regardless of the challenging economic scenario, the retail sector presented a 5 point increase in 2012, maintaining the upward trend of the past nine years.

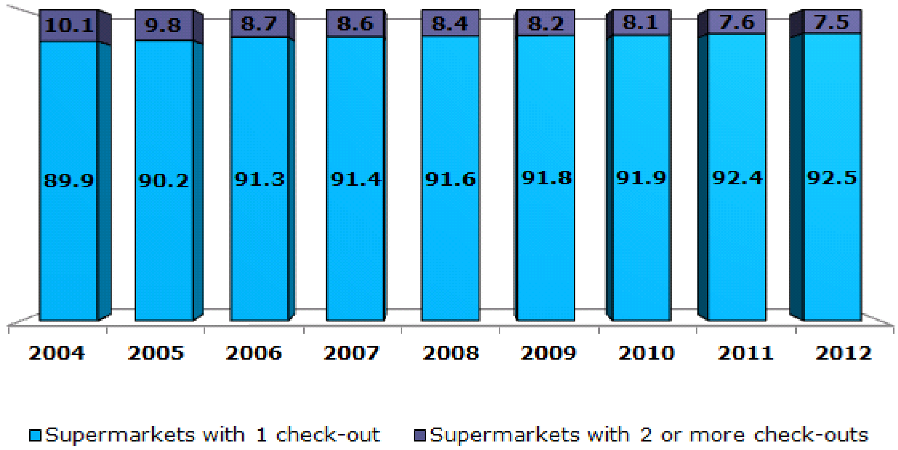
RETAIL REVENUE INDEX
(Deflated by IGP-DI index, 1990=100)



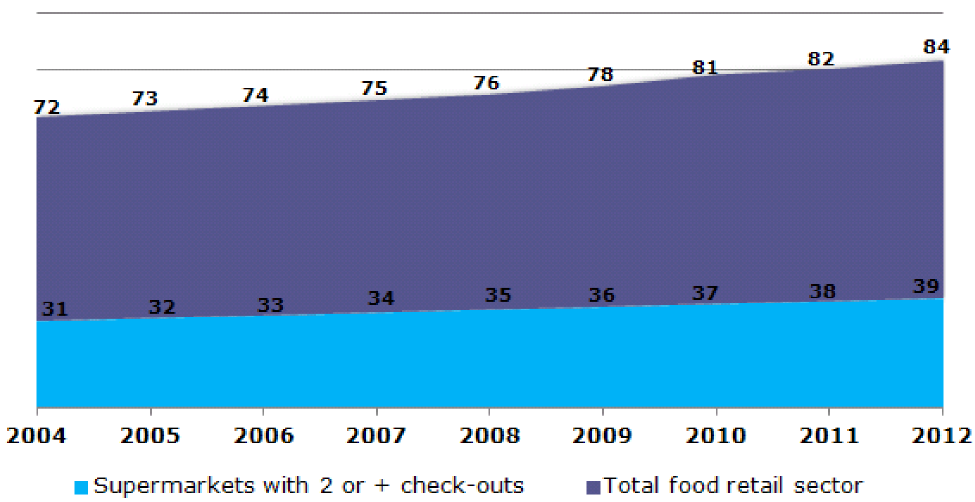
Source: ABRAS

The Brazilian food retail sector is characterized by the traditional format, stores with one check-out, and the supermarket format, stores with two or more check-outs. According to ABRAS, in 2012, the group of stores with two or more check-outs increased sales by 8.3 percent (2.5 percent in real terms), while the group of traditional stores expanded sales by 7.9 percent (1.9 percent in real terms). The results reached by the two groups confirm the sector trend: supermarkets keep growing at faster pace. In 2012, this group gained 1 point and accounted for 92.5 percent of overall sales. In number of stores, the share of supermarkets (38.8 thousand stores) was still below the number of traditional stores (44,800). In the past decade the supermarket format has gained ground, reaching 46.4 percent of the total number of stores in 2012.

RETAIL SALES PERFORMANCE (%)



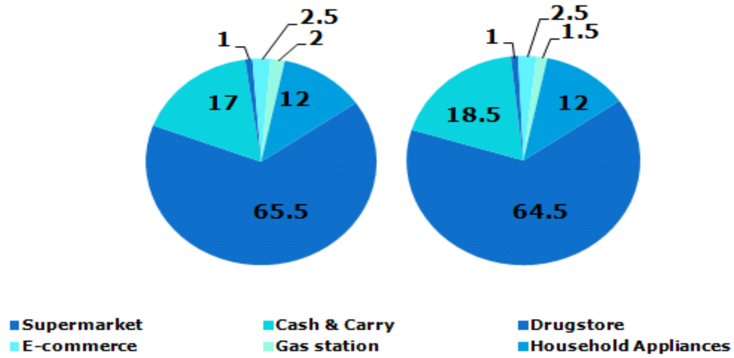
RETAIL PERFORMANCE IN NUMBER OF STORES (thousand)



Source: ABRAS

Large food retail companies are constantly looking for expansion opportunities. Over the past few years, the largest retailers were involved in acquisitions and also started to acquire companies specialized in other type of non-food business, adding different services to their operations, such as pharmacies, gas station, restaurants, etc. Cash & carry is one of the other services many companies added to their business. In 2012, this format added R$43.2 billion (US$21.8 billion) to retail revenues and represented 18.5 percent of total sales. Although, food retailing continues to be the main activity for the largest firms, food, as a share of total sales is declining. In 2011, food retailing represented 65.5 percent of total revenues, while in 2012 it accounted for 64.5 percent of total sales.

RETAIL SALES BY TYPE OF SERVICE (%)

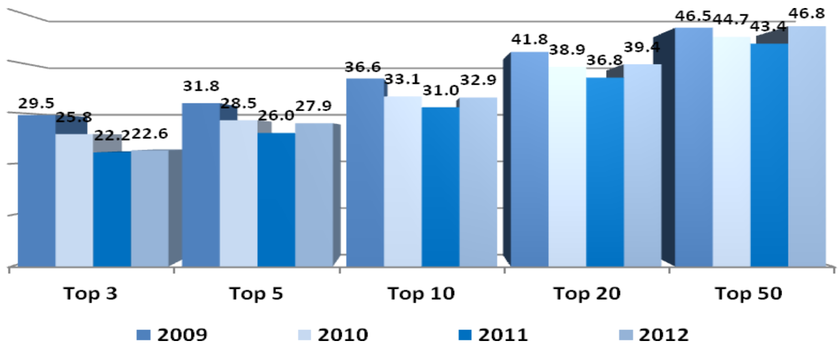


Source: ABRAS

The three largest food retailers, Pao de Acucar, Carrefour and Walmart are the ones with widest geographic coverage. These three companies maintained 22.6 percent of the retail market (considering only supermarket operations), showing that the level of concentration in the Brazilian market is still low. According to retail analysts, regional chains balance the power of the larger companies as they are well established in their geographic area and well aware of the local culture. ABRAS points out that regional chains are investing and expanding their presence within the region to block the penetration of larger supermarket companies.

The share of the three top companies slightly changed in the previous year, it went up only 0.4 points in 2012, from 22.2 in 2011 to 22.6 in 2012. The expansion of the top five food retailers was more significant, it rose 1.9 points, from 26 percent to 27.9 percent. The reason behind this result is the acquisition of Prezunic by Cencosud. Prezunic added approximately R$2.6 billion (US$1.3 billion) to Cencosud's revenue. Retail analysts do not believe there will be major changes in the near future. The current scenario is only expected to change if one of the top food retailers starts up an acquisition process. When observing the movement made by the top 10, top 20 and the top 50 chains, their positive result was mostly driven by organic growth. As mentioned before, regional, medium size companies are consistently investing in their original markets, turning their territory into a harder battlefield for competitors.

RETAIL CONCENTRATION (%)



Source: ABRAS

In 2011, ABRAS surveyed food retailers to set a profile of Brazilian stores. The stores were divided into six categories, according to their format (convenience, limited assortment, supermarkets, hypermarket, supercenters, retail/wholesale clubs). According to the study, in 2011 the most common format was the supermarket, which presented the following characteristics: average size of 1.3 thousand square meters; average assortment of 15.4 thousand items (22.3 percent non-food items); average number of check-outs of 11.6 units. The convenience format came next. On average, the size of this type of store reached 74 square meters, with an assortment of 2,596 items (31.1 percent non-food). The limited assortment stores reached 337 square meters on average and supplied 6,359 items (27.5 percent non-food). For large size formats, hypermarkets and supercenters on average occupied an area of 5.3 thousand square meters, with 32.6 check-outs and 34,216 items (50 percent non-food). Retail/Wholesale clubs offered 17,469 items in stores of 2.7 thousand square meters. When analyzing revenues, supermarkets accounted for 76.8 percent of gross sales; hypermarkets accounted for 13.1 percent; retail/wholesale clubs 6.4 percent; convenience stores 2 percent and limited assortment stores for 1.6 percent. Although the Association had not updated this information in 2012, retail analysts state there were no significant changes in these profiles.

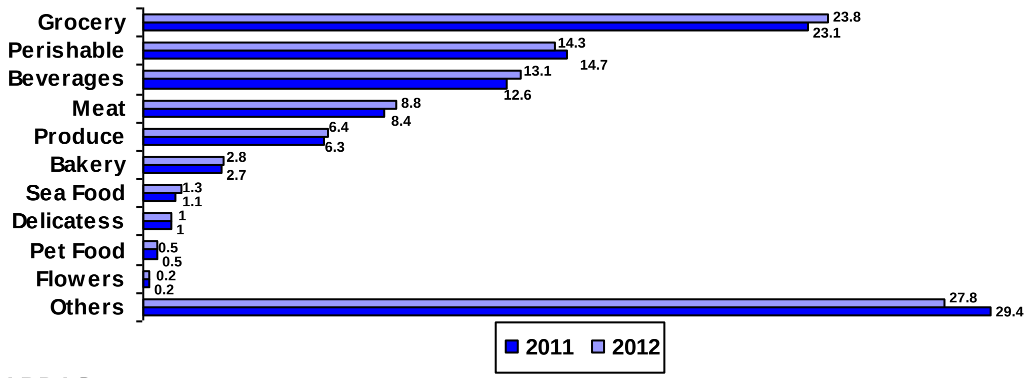
STORE FORMATS

SALES AREA	AVERAGE SALES AREA (m^2)	AVERAGE # of CHECK-OUTS	AVERAGE # of ITEMS	FOOD ITEMS (%)
Convenience	74	1.4	2,596	68.9
Limited Assortment	337	4.3	6,359	72.5
Supermarkets	1,293	11.6	15,379	77.7
Hypermarkets/ Supercenters	5,276	32.6	34,216	49.9
Retail/Wholesale Clubs	2,747	17.6	17,469	91.8

Source: ABRAS

ABRAS also captures the performance of the various departments within supermarkets. The food departments are divided into the following: dry grocery, perishable, liquid grocery, meat, produce, bakery, seafood and deli (ready-to-eat), pet food and flowers. In 2012, food accounted for 72 percent of total sales, 1.6 point above the previous year. As per individual performance no significant changes were observed, the share of the various departments in general terms remained steady. The grocery category reached the highest growth of 0.7 points. This category includes items of basic needs and commodities and is considered very sensitive to the gains or losses of lowest-income families.

SHARE OF FOOD AND BEVERAGE ITEMS BY CATEGORY AT RETAIL (%)



Source: ABRAS

ABRAS also follows the performance of imported products, private label and organics within supermarkets. For imported products, overall sales decreased 2.5 percent in 2012, while in 2011 this category represented 3.8 percent of total revenues. Share of private label products also fell from 4.1 percent to 3.5 percent, while sales of organic products slightly increased from 0.5 percent to 0.75 percent. According to local importers the decrease in imports' share of total sales is not solely related to dollar fluctuation or aversion to risk in a climate of economic uncertainties. In 2012, the Brazilian Government started a process of investigation to implement safeguard measures on wine imports. Related to safeguard measures were discussions to increase import tariffs on wines to 55 percent. The safeguard discussions lasted about 7 months, and had a negative impact on wine imports. Since wine is an important element in the imported food category, uncertainly on duties affected total imports.

The supermarket sector continues to be an important distribution channel in Brazil and producers who wish to access the market through this channel should be aware of major challenges and advantages:

ADVANTAGES	CHALLENGES
Retailers offer foreign goods to differentiate themselves from competitors, develop new niche markets and gain high-end consumers' attention.	Most luxury goods come from Europe. Consumers easily associate Europe with sophistication and tradition.
Price is not always the determinant purchasing criteria for high-end consumers.	High-end consumers are more demanding regarding other aspects of products such as innovation, packaging, status, new trends, etc.
Brazilian importers are frequently searching for new-to-market products as they must update their portfolio from time to time in order to compete.	Importers tend to buy small quantities to test market. US companies are often not predisposed to sell small quantities.
The US food industry is able to respond to consumer demand promptly, regardless of the segment of products.	Consumers perceive US food products to be overly processed and relatively unhealthy.

SECTION II. Road Map for Market Entry

I. Entry Strategy

The agribusiness sector is an extremely important sector for Brazil as the country is a major producer of several commodities. Different than other Latin America countries, Brazil is self-sufficient in food supply. The Brazilian food industry is well developed and the presence of major multinationals is already consolidated in the market. The local industry is modern and diverse and can meet most everyday needs. This combined with high duties and time consuming import procedures puts imported food products into a luxury category. When approaching the Brazilian market, exporters should be aware that most imported foods and beverages will not compete directly with local products in price terms. Producers from around the world face high freight costs and import tariffs. Exceptions to this are Mercosul countries (Argentina, Paraguay, Uruguay and Venezuela) and Chile, as these countries enjoy duty-free and preferential treatment, respectively.

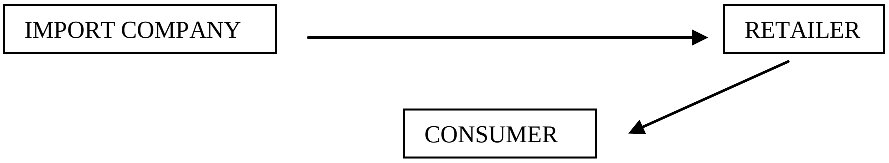
U.S. food and beverages directly compete with European counterparts. Both are positioned within the premium price category. According to importers, the shelf price of imported goods is 2-5 times the FOB price at origin. As a result, U.S. exporters must evaluate the extent to which their products can compete and maintain attractiveness. Because approximately 80 percent of food and beverage distribution takes place through retail stores, developing a relationship with retailers will be more likely to guarantee visibility and country-wide and regional coverage. The commercial power of the retail industry vis-à-vis food suppliers has steadily increased over the past years. Retailers are well aware of their importance in the food distribution system and their advantageous position in comparison with suppliers. They exert considerable purchasing power as they reach the overwhelming majority of Brazilian households. For retailers, foreign products may be imported directly from the processor or distributor or purchased locally from an importer. When conducting an import operation, both follow the same purchase pattern for initial purchases: wide variety and small quantities. Despite the size of the company, the conservative profile is a common characteristic for testing a new to market product.

U.S. exporters should always consider the U.S. Agricultural Trade Office (ATO) in Sao Paulo as an initial source of information and market guidance. The ATO maintains direct contact with the major players in order to facilitate market entry and is also able to provide assistance on Brazilian legislation and standards for imported goods. U.S. companies can test market through ATO marketing activities and also profit from its market intelligence. As a first move, exporters should always make sure their products have access to enter the market. Such issues can be cleared with ATO before initiating a conversation with a local buyer.

II. Market Structure

Imports of foods, beverages, ingredients or consumer-ready products may occur directly or indirectly. As per retail imports, volume is the determining factor. If the volume to be imported does not justify the operation, retailers will prefer to purchase imported items locally from importers/distributors. While avoiding the middleman is a general goal, it only happens if retailers are able to fill containers and keep overhead costs in check. When launching new-to-market products, Brazilian buyers are hesitant to purchase full containers of single products while, on the other hand, U.S. suppliers are often unwilling to deal with small volumes. Oftentimes exporters are cautious to do business with a single supermarket chain as their perception of reaching consumers through a single source does not seem attractive. This perception does not always correspond to the reality. It is a matter of strategy, as retailers may achieve significant market penetration.

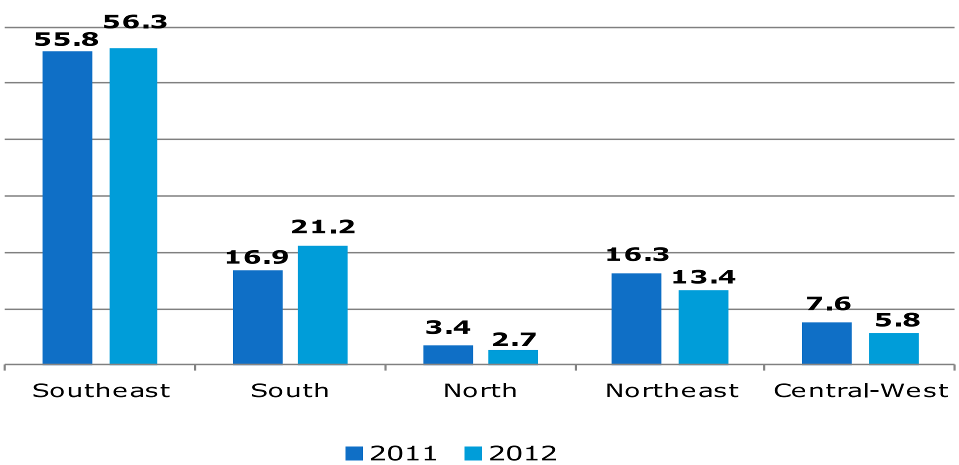
MARKET STRUCTURE FOR IMPORTED FOOD AND BEVERAGE PRODUCTS IN BRAZIL



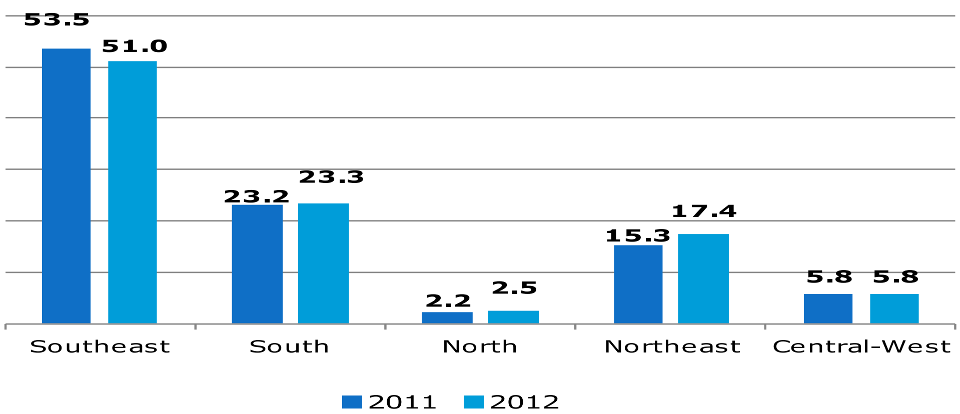
To demonstrate the potential of each Brazilian region and state, ABRAS divided supermarket revenues geographically, based on revenues generated by the top 500 supermarket chains. This information may guide U.S. exporters when designing their strategies toward the Brazilian market and help them evaluate whether or not a specific supermarket chain may or may not represent a potential opportunity.

The Southeast region of Brazil, which comprises the states of Sao Paulo, Rio de Janeiro, Minas Gerais and Espirito Santo, continued to be the economic engine driving supermarket sales. It generated more than half of revenues in 2012, 56.3 percent. The South region, composed of Parana, Rio Grande do Sul and Santa Catarina, made up 21.2 percent of sector gross sales. The Northeast region, which includes the states of Alagoas, Bahia, Ceara, Maranhao, Paraiba, Pernambuco, Piaui, Rio Grande do Norte and Sergipe, summed 13.4 percent of total sales, the North region, which gathers the states of Acre, Amapa, Amazonas, Para, Rondonia, Roraima, Tocantins, amounted 2.7 percent of total sales, while the Central-West, composed by Mato Grosso, Mato Grosso do Sul, Goias and Distrito Federal, amounted to 6.5 percent.

RETAIL SALES BY REGION (%)



STORES DISTRIBUTION BY REGION (%)



Source: ABRAS

Considering the performance of states individually, Sao Paulo maintained the leadership, totaling 34.1 percent of overall supermarket sales. The second and third position was followed by two other Southeast states, Minas Gerais and Rio de Janeiro, reaching 10.6 percent and 10.2 percent of revenues, respectively. Alone these 3 states amounted 55 percent of supermarket revenues, while the top 10 states summed 87.1 percent of revenues.

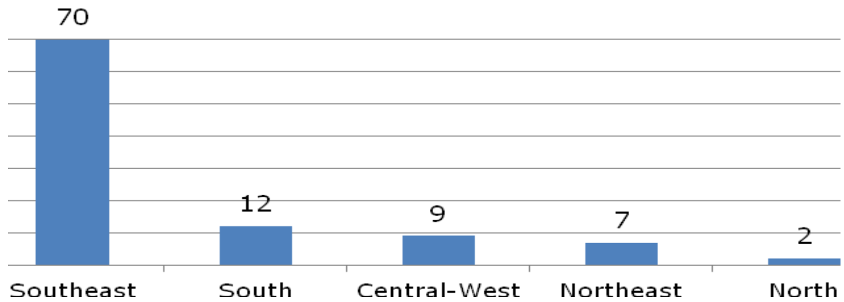
BRAZILIAN RETAIL SALES BY STATE (2012)

RANK	STATE	REGION	% GROSS SALES (R$ Billions)	% NUMBER OF STORES
1	Sao Paulo	Southeast	34.1	29.1
2	Minas Gerais	Southeast	10.6	10.5
3	Rio de Janeiro	Southeast	10.2	10.0
4	Rio Grande do Sul	South	9.6	11.4
5	Parana	South	6.7	6.5
6	Santa Catarina	South	4.9	5.4
7	Bahia	Northeast	4.0	8.0
8	Pernambuco	Northeast	2.8	2.4
9	Para	North	2.1	1.5
10	Goias	Central-West	2.1	2.1
TOTAL			**87.1**	**86.9**

Source: ABRAS

According to local importers, sales of imported food and beverage have not followed the same pattern in terms of sales. The rank was: Southeast, South, Northeast, Central-West, Northeast and North. The importance of the Southeast was greater for sales of imported items, the region represented 70 percent of total sales. The South, the Northeast and North regions were less representative compared to retail sales, while the Central-West had a higher share.

IMPORTED FOOD AND BEVERAGE GROSS SALES BY REGION (%)



Source: ATO Sao Paulo

III. Company Profiles

According to ABRAS Rank, in 2012 Grupo Pao de Acucar maintained the leadership with total sales of R$57.2 billion (approximately US$28.8 billion), an increase of 8.4 percent in nominal terms and 2.6 percent in real terms. The sales of supermarket operations alone increased 0.4 points more than the group as a whole to 8.8 percent. The format that generated more results in 2012 was the neighborhood format. The Minimercado Extra, for instance expanded sales 61.4 percent, with the opening of 35 new stores. The second most prominent format was the cash & carry, Assai, which increased sales in 24.1 percent despite opening only two stores. Carrefour came in second place with gross sales of R$31.4 (approximately US$15.8 billion), an increase of 9.4 percent in nominal terms and 3.4 percent in real terms. Retail analysts state the positive result generated by Carrefour was produced by Atacadao, a cash & carry format that is gaining importance within Carrefour operations. In 2012, Atacadao counted with 92 stores throughout Brazil. Walmart, came in third place, generated R$ 25.9 billion in sales (approximately US$ 13 billion), expanding more than Pao de Acucar and Carrefour, 10.5 percent in nominal terms and 4.5 percent in real terms. This result was contrary to news spread by the media that positioned Walmart behind Pao de Acucar and Carrefour. Following the three leaders were Cencosud, with R$9.7 billion (approximately US$4.9 billion), and Zaffari with R$3.3 billion (approximately US$1.7 billion). Cencosud, the Chilenean group, concluded the acquisition process in Brazil. As a result, in 2012 it showed a 56 percent sales increase in nominal terms and 50 percent in real terms. From the fifth place to the tenth place, companies increased approximately 11 percent in nominal terms, except for Irmaos Muffato that rose sales by 3.8 percent, which means that in real terms registered a loss.

TOP 10 BRAZILIAN RETAILERS

COMPANY	OWNERSHIP	SALES (R$	SHARE (%)	NUMBER OF	LOCATION[1]	PURCHASING AGENT TYPE[2]

		million)		STORES		
1. Grupo Pao de Acucar -Pão de Açúcar -Extra Hipermercado -Extra Posto -Extra Drogaria -Extra Supermercado -MiniMercado Extra -Assai -Pontofrio -Casas Bahia	France/ Brazil	57,233.6	23.5	1,882	AL, BA, CE, DF, ES, GO, MG, MT, MS, PB, PE, PI, PR, RJ, RN, RS, SC, SE, SP, TO	LFP, DI, LI
2. Carrefour -Carrefour -Carrefour Bairro -Atacadão	France	31,474.8	13.0	236	AM, CE, DF,ES, GO, MS, MG, PB, PR, PE, RJ, RN, RS, SP	LFP, DI, LI
3. Wal-Mart -Wal-Mart -Sam's Club -Bom Preço -BIG -Hper -Todo Dia -Maxxi -Mercadorama -Nacional	US	25,932.9	10.7	547	AL, BA, CE, DF, ES, GO, MG, MT, MS, PB, PE, PI, PR, RJ, RN, RS, SC, SE, SP	LFP, DI, LI
4. Cencosud -G. Barbosa -Irmaos Breta -Perini -Mercantil Rodrigues -Prezunic	Chile	9,718.1	4.0	205	AL, BA, CE, GO, MG, PE, RJ, SE	LFP, DI, LI
5. Cia. Zaffari -Zaffari -Bourbon	Brazil	3,305.0	3.4	30	RS, SP	LFP, DI, LI
6. Irmaos Muffato & CIA LTDA.	Brazil	2,770.1	1.1	37	PR	LFP, LI
7. Condor Super Center LTDA.	Brazil	2,626.6	1.1	35	PR	LFP, DI, LI
8. Supermercados BH. Com. De	Brazil	2,357.5	1.0	117	MG	LFP, DI, LI

Alim. LTDA.						
9. Sonda Superm. Export e Import S.A. -Cobal Supermercados -Superm. Zimbreira	Brazil	2,301.8	0.9	32	SP	LFP, DI, LI
10. A. Angeloni. CIA. LTDA	Brazil	2,207.8	0.9	26	PR, SC	LFP, LI
TOTAL (10)		**139,928.2**	**57.8**	**3,147**		

Note [1]: AM (Amazonas), AL (Alagoas), BA (Bahia), CE (Ceará), DF (Distrito Federal), ES (Espírito Santo), GO (Goiás), MG (Minas Gerais), MS (Mato Grosso do Sul), PB (Paraíba), PE (Pernambuco), PI (Piauí), PR (Paraná), RJ (Rio de Janeiro), RN (Rio Grande do Norte), RS (Rio Grande do Sul), SC (Santa Catarina), SE (Sergipe) and SP (São Paulo).
Note [2]: LFP (local food processors), DI (direct imports) and LI (local importers).
Source: ABRAS/AC Nielsen

SECTION III. Competition

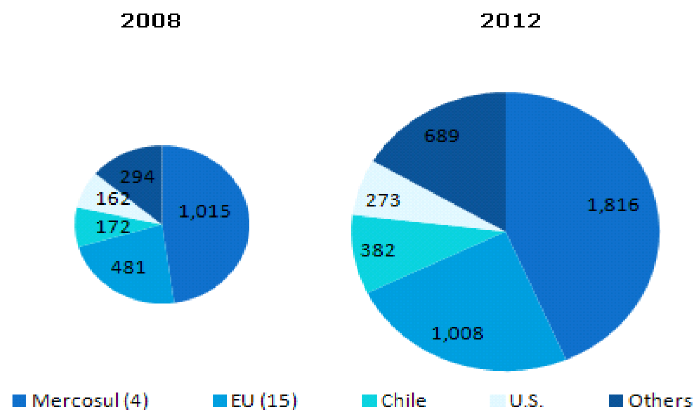
Imported foods and beverage products may be roughly divided into two categories: products that are price competitive with domestic goods and products that are priced above comparable domestic items. As mentioned before, Mercosul and Chile benefit from tariff exemptions and less expensive transportation costs. These cost gains give them the advantage to compete with the local industry, leading the block of countries to detain 44 percent of market share for imported food and beverage goods. Exporters from other countries, such as EU countries and the United States, face more challenges to compete. Higher freight costs and import tariff place products from these origins at the premium product category.

According to the Brazilian Statistic and Geography Institute (IBGE) approximately 23 million Brazilians belong to high-end stratum. The US and EU directly compete for this high-end target group. However, for European companies the segment of premium foods was naturally developed, not only Brazilian eating habits are more linked to European eating habits but also Brazilian consumers assume Europeans products are more refined. As the consumption of luxury goods has to do with status, EU entails a high degree of customer loyalty. US companies are able to present products with similar quality and standards, however considering the status of EU companies, US companies will not only need to adopt a more aggressive strategy to gain market share but will also need to conquer a greater image on consumer’s mind.

In 2012, Brazil’s imports of consumer-oriented food products stood at US$4.2 billion. Compared to 2011, imports of these items had an increase of 4 percent. The market share from major supplying countries had not shown considerable oscillation. Mercosul countries lost 3 points, however these points were equally distributed among E.U., Chile and the U.S., which left their long established position in the rank unaffected. Despite the economic crisis that affected and continues to affect the entire globe, from 2008 to 2012, imports of consumer-oriented products by Brazil almost doubled. Although Brazil does not figure between the largest importers of consumer-oriented products, the country has shown an outstanding performance and the forecast continuous to be positive. From January to October 2013, imports of consumer-oriented products from the

United States to Brazil increased by 23.6 percent, while imports from all countries increased 12.6 percent. In 2014 Brazil will host the Soccer World Cup and in 2016 the Olympics, these upcoming events are also expected to push imports in the upcoming years.

BRAZILIAN IMPORTS of CONSUMER-ORIENTED FOOD PRODUCTS (in million dollars)



	2008	%	2009	%	2010	%	2011	%	2012	%
World	2,124	100	2,220	100	3,134	100	4,007	100	4,168	100
Mercosul (4)	1,015	48	1,040	47	1,437	46	1,896	47	1,816	44
EU (15)	481	23	509	23	698	22	916	23	1,008	24
Chile	172	8	198	9	287	9	314	8	382	9
U.S.	162	8	149	7	204	7	241	6	273	7
Others	294	14	324	15	510	16	638	16	689	16

Source: Secretariat of Foreign Trade (Secex)
Note: Mercosul (4): Brazil, Argentina, Uruguay and Paraguay; EU (15): Germany, Austria, Belgium, Spain, Denmark, Finland, France, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, United Kingdom and Sweden.

SECTION IV. Best Product Prospects

I. Products present in the market which have good sales potential

Importers are generally looking for well-known brands and high-end products. Brazilian importers/distributors usually prefer products with six months shelf life or more. In addition to the product itself, packaging, status and level of innovation are important attributes. Products that combine these characteristics are more likely to successfully enter the market. Currently the food categories that are mostly exported to Brazil from the United States are: meat products, eggs and products, dairy products, fresh fruit, processed fruit, processed vegetables, fruit and vegetable juices, tree nuts, chocolate and cocoa products, snack foods, breakfast cereals, condiments and sauces, prepared food, wine, beer, distilled spirits, non alcoholic beverages (ex. juices) and fish products.

II. Products not present in significant quantities but which have good sales potential

Health foods, especially natural and organic products, have a limited presence in the Brazilian market. Although increasing at a fast pace of 30-35 percent per year, the local industry has not directed consistent efforts to develop this segment. There are a limited number of local suppliers offering processed organic products in the market, consequently prices for these items are still high for the average consumer. U.S. suppliers may find great opportunities within this niche. Brazil requires the use of the organic stamp on all organic products. In order to receive approval for its use, organic producers must comply with regulations, which mean that a local certifying agent, accredited by MAPA, must assure the product is produced according to MAPA's standards. Other food categories being sought by local importers are lactose free products, kosher products, diet products, gluten free products and functional foods.

III. Products not present because they face significant barriers

Brazilian legislation requires all food items to be approved by Ministry of Health (MS) or Ministry of Agriculture, Livestock, and Food Supply (MAPA) prior to shipment. Currently, poultry and beef imports are banned and considerable restrictions exist for products containing ingredients derived from biotech commodities.

SECTION V. Post Contact and Further Information

Please do not hesitate to contact the offices below for questions or comments regarding this report or require assistance to export processed food products to Brazil:

U.S. Agricultural Trade Office (ATO)
U.S. Consulate General
Rua Henri Dunant, 700
04709-110 Sao Paulo – SP
Tel: (55 11) 3250-5400
Fax: (55 11) 3250-5499
E-mail: atosaopaulo@fas.usda.gov
atobrazil@usdabrazil.org.br

Office of Agricultural Affairs (OAA)
U.S. Embassy
Av. das Nacoes, quadra 801, lote 3
70403-900 Brasilia - DF
Tel: (55 61) 3312-7000
Fax: (55 61) 3312-7659
E-mail: agbrasilia@fas.usda.gov